

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Review Policies  
Concerning Intrastate Carrier Access Charges.

Rulemaking 03-08-018  
(Filed August 21, 2003)

**ADMINISTRATION LAW JUDGE'S RULING REOPENING PHASE 1  
AND SEEKING ADDITIONAL COMMENTS**

This ruling reopens Phase 1 of this proceeding to solicit additional information and opinion regarding two issues, namely, (1) the possible effect of an agreement between the members of the Intercarrier Compensation Forum (ICF) regarding intrastate access charges, and (2) the effect of reducing access charges on the revenues, rates and profits of local exchange companies and their affiliates in light of local exchange company affiliates' increasing market share in long distance markets.

**1. Background**

The Commission opened this rulemaking to address whether existing local exchange carrier (LEC) access charges are set at appropriate levels, considering their costs and the impact of access charge levels on long distance competition, and related issues. Rulemaking 03-08-018, which initiated this rulemaking and inquiry stated the Commission's intent to address the issues in two phases. In Phase 1, the Commission stated its intent to address several threshold issues, most relevant here, whether the Commission should offset possible reductions in LEC access charge revenues with increases in other rates to make the LECs

indifferent to the rate change, a regulatory convention referred to as “revenue neutrality” or “rate rebalancing.”

Following receipt of comments and reply comments on Phase 1 issues, and in consultation with the assigned Commissioner, the assigned Administrative Law Judge (ALJ) issued a proposed decision on June 17, 2004 that would resolve Phase 1 issues. The proposed decision recommends, among other things, that the Commission apply the principle of revenue neutrality if it reduces access charges. The proposed decision was listed on the Commission’s meeting agenda for August 19, 2004 and was withdrawn at the request of the assigned Commissioner at the Commission’s meeting on September 2, 2004.

The ALJ’s proposed decision and the record upon which it relies may not recognize all relevant facts and circumstances, some of which have come to light since the last round of comments. This ruling solicits facts and comments from all parties with regard to those facts and circumstances, described below.

**Proposed Changes to Access Charges in Other Forums.** ICF is an industry association that addresses the ways carriers compensate each other for the use of each other’s facilities when carrying telecommunications traffic. ICF recently announced that it had reached an agreement which, if adopted by the Federal Communications Commission, would reset access charges nationwide and increase the subscriber line charge imposed on customers. The specific provision of this agreement and the extent to which the parties intend this agreement to affect California charges is not clear on the record of this proceeding. Other parties have raised similar ideas in other forums.

This ruling seeks parties’ comments about whether the ICF agreement or any other formal proposal seeks to make specific changes to California access

charges and, if so, how the Commission should consider whether to adopt those changes. Parties may also comment on whether any element of the agreement would or should affect the Commission's consideration of rate rebalancing in this case.

**Evolving Long Distance Markets.** Affiliates of SBC California (SBC) and Verizon California Inc. (Verizon) were granted authority in 2001 to market and sell long distance services in California. These affiliates appear to have made steady inroads into California long distance markets. In response to a data request from Commission staff, Verizon reports that a substantial portion of its access charge revenues are paid by its long distance affiliate. SBC reports that its long distance affiliate now serves a substantial portion of California's long distance markets. The LEC affiliates' share of the market may increase in light of AT&T Communications of California, Inc. recent announcement that it will no longer market long distance services to residential customers.

When an LEC's affiliate provides toll or long distance services, it pays itself, either directly or indirectly, for access to the local system. The implication of these corporate relationships for our inquiry here is that reducing access charges and permitting the LEC to make corresponding increases to other rates would provide a windfall to the LEC's family of companies if the long distance affiliate is not compelled to make corresponding rate reductions. The LEC receives higher revenues from other rates while facing no additional costs. Indeed, where the Commission permits LEC rate rebalancing, long distance carriers that are not LEC affiliates may receive a windfall if the long distance company does not reduce rates to reflect its lower costs of access. In either case, consumers would be worse off.

Other changes in the structure of California telecommunications markets may also affect access charge revenues and the market share of various carriers.

This ruling solicits the comments of the parties as to (1) whether these facts and circumstances are relevant to the Commission's Phase 1 inquiry on the issue of rate rebalancing and, (2) if they are relevant, whether the Commission's decision on rate rebalancing should somehow reflect these considerations, whether in its determination of the reasonableness of rate rebalancing or in its determination of how to implement rate rebalancing or how much rate rebalancing should be authorized.

**IT IS RULED** that:

1. Phase 1 of this proceeding is reopened to develop a record on this issues set forth in this ruling.
2. Comments on the issues addressed in this ruling must be filed no later than September 28, 2004. Reply comments must be filed no later than October 7, 2004.

Dated September 20, 2004, at San Francisco, California.

/s/ KIM MALCOLM

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Kim Malcolm  
Administration Law Judge

**CERTIFICATE OF SERVICE**

I certify that I have by mail and by electronic mail this day served a true copy of the original attached Assigned Commissioner Ruling Reopening Phase 1 and Seeking Additional Comments on all parties of record in this proceeding or their attorneys of record.

Dated September 20, 2004, at San Francisco, California.

/s/ JANET V. ALVIAR

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Janet V. Alviar

**N O T I C E**

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.